Council

24 January 2024

Pentagon Shopping Centre – Addition to the Capital Programme and Virements

Portfolio Holder: Councillor Naushabah Khan, Portfolio Holder for Housing and Property

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Summary

This report requests a capital addition to deliver the Healthy Living Centre in the Pentagon Centre, a cost which will be reimbursed by the NHS. The report also seeks approval for virements for reporting clarity purposes.

The report was due to be considered by the Cabinet on 16 January 2024. The recommendations to the Cabinet are set out in section 6 of the report.

1. Recommendations

1.1 The Council is asked to agree an addition to the Capital Programme, of £2,752,000 for the delivery of the Healthy Living Centre in the Pentagon Centre, noting this figure will be reimbursed by the NHS and is subject to NHS final approvals and S106 contributions.

1.2 The Council is asked to agree the following virements from the existing Pentagon Centre future works budget, to deliver the diversification of the first floor of the Pentagon Centre:

A. £1,245,900 to deliver the Healthy Living Centre
B. £1,811,366 to deliver the Innovation Hub

2. Budget and policy framework

2.1 In February 2019, Cabinet recommended to Full Council the acquisition of the head lease of the Pentagon Centre and in so doing granted delegated authority to carry out the re-configuration and improvement works to the Pentagon Centre and to manage and let the centre (decision no. 32/2019).

2.2 On 21 February 2019, the Council added £45 million to the capital programme to fund the acquisition of the Pentagon Centre.

2.3 In 2020 Council approved the virement of the underspend following the acquisition of the Pentagon Centre to a new capital scheme for future capital works at the Pentagon Centre (Minute no.713D, Full Council 20 February 2020).

2.4 Full Council in Feb 2022 added £10,348,000 to the Capital Programme to fund the Healthy Living Centre (HLC), on the provision that the NHS would reimburse the full amount.

2.5 The Council was awarded c.£9.5m grant funding from the Future High Street Fund (FHSF), to assist with the delivery of the HLC and Innovation Hub on the first floor of the Pentagon Centre, the acquisition and redevelopment of the ground floor of the former Debenhams project, along with other regeneration projects in the heart of Chatham. The £9,497,720 was added to the Capital Programme in 18 February 2021.

2.6 It is the responsibility of Cabinet to ensure that expenditure for each capital scheme remains within the budget approved by the Council, it remains the responsibility of Council to approve schemes for inclusion in the capital programme.

3. Background

3.1 In February 2019 the Council approved a £45 million addition to the capital programme to acquire the head lease of the Pentagon Centre. The Council acquired the Pentagon Centre in 2019 at a total cost of almost £37 million. £3 million was vired to fund the subsequent acquisition of the Mountbatten House sub-lease and the circa £5 million balance of the original borrowing approval allocated to fund 'future capital works to the Pentagon Centre' (Minute No. 713D, Full Council 20 February 2020).

3.2 The Council acquired the Pentagon Centre in April 2019, knowing that the ground floor was trading well and that the first floor would need investment. Various options have been considered for the redevelopment of the first floor, with the two uses below being progressed:

- An NHS HLC, this will provide a much-needed medical facility in Chatham.
- An Innovation Hub, which will be part funded from the Future High Street Fund.

3.3 £10,348,000 was added to the Capital programme in February 2022, to deliver the HLC. The designs have progressed to RIBA 4, enabling higher cost certainty and following the further design work and subsequent cost inflation, further funding is required to enable the tender exercise to be undertaken to build out the HLC. A Capital addition of £2,752,000 is being requested, on the provision this funding is reimbursed by the NHS subject to their final approvals and S106 contributions. This addition to the Capital Programme will only be drawn down once the NHS have formally committed

the funding and have signed the lease and funding agreement with the Council. Terms regarding the additional capital provided by the NHS will be subject to negotiation on occupational terms and thereby may have a financial impact, Officers will therefore exercise delegated authority as set out in 8.34 (Commercial Property of the Employee Delegation Scheme.)

3.4 In 2020 Cabinet approved the virement of the underspend following the acquisition of the Pentagon Centre to a new capital scheme for 'future capital works at the Pentagon Centre' (Minute no.713D, full Council, 20 February 2020). The Council has been successful in securing grant funding via the Future High Street Fund, for diversification of the first floor of the Pentagon Centre to enable the delivery of the Innovation Hub and HLC. Match funding has been allocated from the remaining funds from the acquisition of the Pentagon Centre to deliver the projects by providing the investment required for the HLC, separation works for the Wilkinsons unit and the Innovation Hub. The virements will not impact project delivery, with no change to the funding source/project budgets but will provide greater reporting clarity.

4. Options

4.1 The options available to the Cabinet were as follows:

Capital additions for Healthy Living Centre:

4.2 Option 1- Cabinet recommends to full Council to approve the addition to the capital programme, to deliver the Healthy Living Centre and diversify the first floor of the Pentagon Centre.

4.3 Option 2- Cabinet decline to recommend to full Council to approve the addition to the capital programme to deliver the Healthy Living Centre and diversify the first floor of the Pentagon Centre.

Cabinet approval for project virements:

4.4 Option 1- Cabinet approves the virements for Wilkinsons works to deliver the diversification of the first floor of the Pentagon Centre, for reporting clarity.

4.5 Option 2- Cabinet declines the virement for the Wilkinsons to deliver the diversification of the first floor of the Pentagon Centre, for reporting clarity.

Cabinet recommendation to Council for project virements:

4.6 Option 1- Cabinet recommends to full Council to approve the virements of existing funding to be apportioned to the individual projects (HLC and Innovation Hub) to enable the delivery of projects at the Pentagon Shopping Centre, for reporting clarity.

4.7 Option 2- Cabinet declines to recommend to full Council to approve the virements of existing funding to undertake the capital works required to deliver the projects (HLC and Innovation Hub) at the Pentagon Shopping Centre, for reporting clarity.

5. Advice and analysis

Capital additions for Healthy Living Centre;

5.1 Option 1- This will assist to enable the delivery of the HLC, with costs to be reimbursed by the NHS. The HLC will provide much needed health care services and facilities in a highly accessible and sustainable location, benefitting from superb public transport links. The contractor will only be appointed once the lease and funding agreement are signed with the NHS.

5.2 Option 2- Would prevent the delivery of the HLC and would result in abortive costs being incurred to the Council.

Cabinet approval for project virements and Cabinet recommendation to Council for project virements;

5.3 Option 1- Does not impact the individual project budgets, as per the previous Council decision (731D, 20 February 2020), the projects have utilised the funding allocated to the future capital works within the Pentagon Centre, to deliver the diversification of the first floor. The approval of the virement will assist with reporting clarity.

5.4 Option 2- Would impact the reporting clarity regarding these projects.

6. Cabinet recommendations

6.1 The Cabinet was due to consider the report at its meeting on 16 January 2024. The recommendations to Cabinet were, in relation to the Pentagon Centre, as set out below.

6.2 Cabinet is asked to recommend to full Council, additions to the Capital Programme, of £2,752,000 for the delivery of the Healthy Living Centre in the Pentagon Centre, noting this figure will be reimbursed by the NHS and is subject to NHS final approvals and S106 contributions.

6.3 Cabinet is asked to approve the virement of £869,250 in relation to Wilkinsons unit, from the existing Pentagon Centre future works budget, to deliver the diversification of the first floor of the Pentagon Centre.

6.4 Cabinet is asked to recommend to full Council the following virements from the existing Pentagon Centre future works budget, to deliver the diversification of the first floor of the Pentagon Centre:

A. £1,245,900 to deliver the Healthy Living Centre
B. £1,811,366 to deliver the Innovation Hub

7. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Not securing the required funding to deliver the Healthy Living Centre	This would prevent the project being delivered. The funding will be reimbursed by the NHS	Approve Capital additions for Healthy Living Centre Option 1	CI
Virements declined	Following Council decision 731D, 20 Feb the allocated funding has been committed and/or spent. For clarity of reporting going forward the virements are required	Approve project virements	CII

For risk rating, please refer to the following table (please **retain** table in final report):

Likelihood	**Impact:**
A Very likely B Likely C Unlikely D Rare	I Catastrophic II Major III Moderate IV Minor

8. Consultation

8.1 The appropriate Portfolio Holders have been consulted throughout the development of the projects.

9. Climate change implications

9.1 The provision of Civic uses and workspace provision in the heart of the town centre, assists with the delivery of living and working locally, in highly accessible locations via sustainable transport, reducing carbon emissions.

9.2 The diversification of the first floor of the Pentagon Centre for these uses results in no new buildings needing to be built, thereby lowering the carbon footprint for delivering these services. The Healthy Living Centre will be aligning to BREEAM standards.

10. Financial implications

10.1 The Council as landlord is responsible for a proportion of the costs involved in diversifying and improving the Pentagon Centre.

10.2 The NHS will reimburse the £13.1m, which consists of the previously agreed £10,348,000 and the £2,752,000 recommended in this report. Current arrangements confirm that payments will be made by the NHS, during the course of the construction, thereby minimising any financial exposure to the Council.

10.3 The terms agreed with the NHS regarding the additional funding requested may have a financial impact on the occupational terms, Officers will utilize the existing delegated authority as set out in 8.34 (Commercial Property) of the Employee Delegation Scheme to conduct negotiations.

11. Legal implications

11.1 The Council has a fiduciary duty and under Section 123 of the Local Government Act 1972, the Council is required to obtain best consideration when it grants leases for over seven years of land and property, unless it's using the general disposals consent 2003, the undervalue is less than £2,000,000 and the disposal will help to secure the promotion or improvement of the economic or environmental well-being of the area, or a specific approval is obtained from the Secretary Of State.

11.2 The Council has a legal duty under NHS Act 2006 section 2B(1) to take the steps that it considers appropriate to improve the health of people in its area including providing health facilities for the people in its area.

11.3 Additions to the capital programme are a matter reserved for Council.

11.4 Budgetary virement for values for £150,000-£1m are matters reserved for Cabinet.

11.5 Budgetary virement over £1m are also a matter reserved for Council.

Lead officer contact

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Appendices

None

Background papers

Minutes of Council, 20 February 2020 (Minute no. 713D)

Cabinet Record of Decisions, 5 July 2022 (decision no 87/2022)